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Market Brief

Japan : Food Processing Sector - Frozen Food

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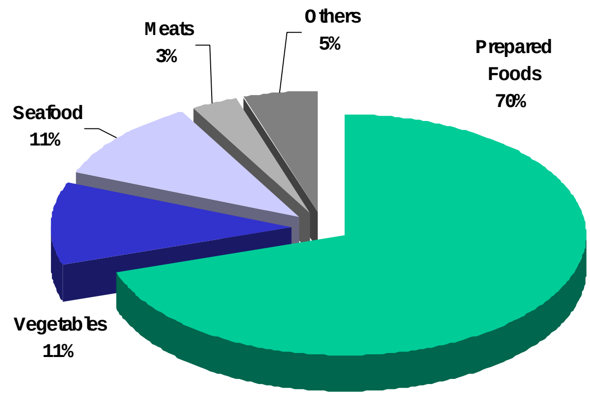
Tokyo[JA1], JA

FROZEN FOOD

OVERALL TRENDS

Chart 1. Sales of Frozen Foods by Value (1997)



Total sales of Frozen Food in Japan reached over 2.2 million metric tons in 1997, valued at around one trillion yen (approximately 8 billion USD). Domestic production accounted for 70 percent of the total supply with imports accounting for the remainder. According to the Japan Frozen Food Association, production of Frozen Food in Japan has risen by more than ten-fold since 1970, by 2.5 times since 1980, by 45 percent since 1990 and by an average of 4 percent per year since 1994. Production growth of 4 percent is expected in 1998 as well. Retail use Frozen Food comprised 26.8 percent of total production in 1997 while industrial use (food processors and the food service industry) accounted for 73.2 percent. Annual per capita consumption in 1997 reached 16.72 kilograms compared to 13.59 kilograms in 1993. There are over 800 companies producing Frozen Food in Japan with 972 factories.

The rapid growth in the Frozen Food sector can be attributed to its increased price competitiveness, ease of use and improved quality. Societal changes have also played a large role. As the numbers of working women increase along with growth in the number of elderly and single person households, Japanese consumers continue to look for ways to reduce cooking time. Housewives are also busier than they used to be and are turning to Frozen Food to reduce their cooking burden. In the past, housewives were considered lazy if they used Frozen Food. Today, however, it is becoming increasingly acceptable to use Frozen Food at home. There is even a growing trend for Frozen Food to be used as the main dish in Japanese meals and not just as side dishes.

Five Major Players in Frozen Food Market:
1. NICHIREI CO.
2. KATOKICHI CO.
3. AJINOMOTO CO.
4. NIPPON SUISAN CO.
5. NICHIRO CORP.

In the food service sector, Frozen Food is also gaining in importance as restaurants try to reduce their operational costs by purchasing processed ingredients in frozen form which can be quickly heated and served to patrons. Cheap restaurant chains (*izakaya*) such as Tengu and Tsubahachi have grown in popularity during the slow-down of the Japanese economy. One reason for their success is that they have reduced their costs by using processed meats and vegetables which are already cut and ready to use. For suppliers of processed frozen chicken, meat, seafood, potatoes, green soy-beans (*edamame*) and other vegetables, the trend toward reducing cost in the food service sector provides many opportunities to sell either directly to the larger restaurant chains or through trading companies and wholesalers to smaller chains and independent restaurants.

Table 1. Sales Quantity and Sales Value of Frozen Foods in Japan (1994-1998)

		Seafood	Agricultural Products		Meat	Prepared Foods	Others	Total
			Vegetables	Fruits				
1994	Quantity	133,385	529,106	3,040	37,974	1,151,023	70,650	1,925,178
	Value	126,715	96,470	1,540	31,844	683,047	44,340	983,956
1995	Quantity	129,385	560,600	2,550	36,835	1,206,400	78,500	2,014,270
	Value	120,328	96,510	1,300	24,900	700,535	45,970	989,543
1996	Quantity	125,550	591,700	2,520	38,675	1,293,400	84,570	2,136,415
	Value	107,973	104,980	930	25,675	725,517	48,205	1,013,280
1997	Quantity	135,590	601,000	2,680	40,600	1,345,100	93,000	2,217,970
	Value	119,302	108,180	1,070	26,390	733,080	51,150	1,039,172
1998 (estimated)	Quantity	132,900	619,000	2,700	40,000	1,385,500	96,700	2,276,800
	Value	114,300	111,425	1,080	26,400	755,100	55,120	1,063,425

Note: (1) Quantity (metric tons), Value (million) *Source: Nikkan Keizai Tsushinsha, 1998*

(2) Import part of chilled products are included.

FROZEN SEAFOOD

Domestic sales of frozen seafood in 1997 were 135,590 metric tons, valued at 119 billion yen. The sales value in 1997 was 10 percent higher than in 1996, but was lower than in 1995. Sales tonnage was also less than in 1995. Frozen seafood sales in Japan are forecast to decrease by two percent in 1998.

Despite some decrease in the demand for seafood due to Japan's economic downturn, tuna, shrimp, prawns and lobster are still popular items for Japanese and continue to be amongst the largest seafood imports. Historically, the demand for shrimp, prawns and lobster has come mainly from the food service industry. Nowadays, however, the ratio between home and Comerica use is said to be about even. Tuna sales should remain high because of Japan's high demand for raw fish (*sashimi*).

In the past, shrimp and prawn were considered luxuries and were very expensive. However, in the 1970's shrimp and prawn imports began increasing and prices began to drop to such point that they have become mass market items with demand stagnating. To combat this trend supermarkets are looking for ways to add value to the product by selling once-frozen and defrosted shrimp and prawn. The idea is to maintain the freshness and taste of the product by selling packages of shrimp or prawn which are frozen overseas, shipped to Japan, and defrosted in the stores before being placed on the shelves. Another option is for the shrimp and prawn to be frozen and packed on-site before shipment to Japan. In both cases, making the product look and taste fresh is of utmost importance. Supermarket sales of mixed frozen seafood in one package, including scallops, squid, shrimp, crab and other items are also popular.

Nichiro, Toyo Suisan, Maruha, and Nihon Suisan have had a long presence in the seafood market in Japan, mainly as importers. However, due to the reduced margins on imported seafood, these companies have moved into the processed frozen seafood market by producing a variety of frozen dishes using seafood, such as fried squid, shrimp curry and various kinds of frozen dumplings. In addition to these companies, the traditional players in the Frozen Food market are also offering many seafood products. The number one selling Frozen Food product in 1997 was Ajinomoto's 15 piece shrimp dumplings (*ebi shumai*). Ajinomoto also had the third biggest seller with its 500 gram shrimp pilaf (*ebi pilaf*) dish.

FROZEN VEGETABLES

Japan's total supply of frozen vegetables in 1997 was 716,134 metric tons, consisting of more than 620,000 metric tons of imported products. Sales of frozen vegetables continue to rise because of increased demand in the food service industry and the retail market. In food service, the market for precut frozen vegetables is growing because of the need to secure low-cost materials, cut operational costs by reducing restaurant food preparation time, and maintain a steady and reliable material supply no matter what the season. Reduction of kitchen waste is another added benefit of using frozen vegetables. In particular, potatoes, green soy-beans, broccoli, cauliflower, corn, carrots and spinach have seen significant growth in the food service market. In the retail market, frozen vegetables are now gaining popularity because of their long-lasting freshness, cleanliness and ease of use. Although there is a large percentage of Japanese consumers who prefer the taste of domestically grown vegetables, some imported product segments, such as potatoes, spinach, taro, broccoli, green beans, peas, and mixed vegetables are increasing. In the category of mixed vegetables, Western-style mixtures of corn, peas, and carrots have traditionally dominated the market. At the same time, sales of Japanese-style mixtures containing burdock, carrots, and taro have risen sharply.

Some supermarket chains are selling Private Brand frozen vegetables using imported material. Marusho Shokuhin, a supermarket chain with 190 stores, is selling frozen precut (natural and crinkle cut) potatoes from the United States under the Marusho name. It is also selling frozen spinach, green beans, mixed vegetables and other products under Private Brand labeling.

Since frozen vegetables generally have a low unit price, manufacturers have been trying to raise the level of processing and value added to their frozen vegetable products. One example is the trend toward using organic vegetables. To meet consumer preferences, manufacturers are offering organic products which are promoted as being more healthy and chemical-free than ordinary frozen vegetables. Daiei Inc., Japan's largest discount retailer, has begun selling frozen organic potatoes at a much lower price than domestic brands by harvesting, processing, wrapping, and importing them directly from the United States. Nichirei Corporation, the largest Frozen Food maker in Japan, has started using US grown organic vegetables to supply its food service customers. Examples include Oregon grown corn and green peas. The use of US organic products in Japan will likely increase due to the relatively low cost of cultivation and the well-established certification methods in the US, which assure authenticity.

FROZEN MEAT PRODUCTS

Sales of frozen meat products in 1997 were 40,600 metric tons, accounting for only 1.8 percent of total Frozen Food sales in Japan. Frozen meat production reached 16,247 metric tons valued at 11 billion Yen in 1997. Poultry production in Japan increase by 12% in volume terms from 1996 to 6,123 metric tons with a value of almost 4 billion yen. Consumption of meat, particularly beef, has grown steadily in Japan as dietary habits become more diverse and Westernized. Per capita beef consumption has risen from 9.64 kgs in 1992 to 12.2 kgs in 1995. In 1996 the figure dropped somewhat to 11.6 kgs per person.

In the food service sector, frozen beef is being used by fast-food and family restaurants in great quantities. Yoshinoya, a low-priced fast-food chain providing beef rice-based dishes, imports sliced beef to supply its 800 plus outlets. Grilled meat (*yakiniku*) and steak restaurants, such as Hanamasa, provide many types of beef at low prices, frequently with an all-you-can-eat menu. Much of this beef is imported in frozen form from the US. While these types of restaurants tend to import mainstream and cheaper meat, gourmet beef is still popular despite the economic downturn. Good hotels and restaurants prefer to use Japanese beef or feed-lot beef from the US and Canada because of the high quality taste and tenderness.

Imported frozen poultry has also found its way into the market in precut form served up at grilled chicken (*yakitori*) restaurants, which are a mainstay of evening entertainment in Japan. Imports of frozen precut chicken in 1997 topped 400,000 metric tons worth approximately 100 billion yen.

FROZEN PROCESSED FOOD/ READY MEALS

Influenced by the boom of "Home Meal Replacement" (HMR) in the United States, HMR has become a new marketing strategy for Frozen Food manufacturers to stimulate the lagging demand in the food service industry resulting from the slow economy. The term HMR was introduced to Japan by Nichirei in 1997. However, Japan has long had a concept similar to HMR, such as *souzai* (delicatessen) and *obento* (lunch box). However, as a marketing technique some supermarkets, for example JUSCO, have recently adopted an HMR concept similar to the US by setting up "real meal corners" in their stores, offering foods which are ready to heat. Many of products are Frozen Foods which are cooked before displaying on the shelf. Convenience stores have also picked up on the idea and are now offering a wide variety of ready to heat dishes such as croquettes, fried shrimp, fried vegetables and rice-based dishes.

In the Frozen Food section of Japanese supermarkets, the HMR concept is helping these products to recapture the lost market share in the retail sector by providing alternatives to cuisine which used to be offered only in restaurants such as Chinese dishes and Italian pasta and pizza. Sales of frozen processed food / ready meals have grown from 1.15 million metric tons in 1994 to 1.35 million metric tons in 1997, an impressive growth rate of 17.4 percent. Growth is expected to continue at around 3 percent in 1998. Key factors behind the growth in this sector include more meals being eaten alone and a growing preference among consumers to spend less time cooking.

The top five processed Frozen Food product categories in 1997 were croquette, pilaf, cutlet (beef and pork), udon noodles and hamburger (meat loaf). In May 1998 the top three selling products were: 1) curry bento produced by Asahikasei; 2) fried shrimp bento from Ajinomoto; and 3) Katokichi's fried shrimp side dish. Eight of the top ten selling products in May of 1998 were for microwave use. With the diffusion rate of microwave ovens topping 90 percent for the first time in 1997, these products should continue to be big sellers in the future.

There has been an increase in demand for frozen flour based products, such as noodles, pasta and bread dough. Domestic production of frozen noodles in 1996 was 133,754 metric tons, increasing by 23 percent in 1997 to 165,137 tons. Frozen bread and bread dough demand jumped by 46.8 percent in 1997 to 38,605 metric tons.

Chinese cuisine, pasta and Japanese noodles are showing substantial growth potential while gratin and frozen snacks are slumping. Nichirei Corporation is popular for its fried chicken, mini croquette, fried shrimp, pork cutlets and fried fish products. Nippon Suisan is producing a variety of prepared frozen seafood, while Nichiro is well-known for its potato wrapped by beef, soft beef cutlet, fried salmon, french fries and dumplings. Mitsukan (Nakano-suten) recently introduced an HMR concept product called “Time Dish” which offers a full meal in one tray which can be heated in the microwave in 3-6 minutes. The products range from a Western-style pancake breakfast to Chinese and Japanese dinner favorites.

IMPORT POTENTIAL

Since Frozen Food covers such a wide range of products, there are many opportunities for importers of ingredients. For vegetables, much potential exists for precut and processed vegetables for the food service industry, as well as for sales to supermarket and convenience store chains selling Private Brand frozen vegetables. Potatoes, corn, peas, spinach, green beans, cauliflower, mushrooms, carrots and mixed vegetables are examples of some products with high potential. Tariffs rates are higher for processed vegetables than for unprocessed vegetables. Organic vegetables also have high potential.

List of Ingredients:
FROZEN SEAFOOD:
herring, capelin, Spanish mackerel, tuna, and skipjack, cod, tara, flat fish, salmon, menuke, sable fish, shrimp, crab, squid, octopus, shellfish.
FROZEN VEGETABLES:
taro, carrots, corn, kernel corn, pumpkin, potatoes, spinach, fruits.
FROZEN MEAT PRODUCTS:
chicken, beef, pork, horse meat, lamb.
FROZEN PROCESSED FOODS:
rice, bread crumbs, flour, noodle, egg, butter seafood, vegetables, tofu.

With the growth in sales of frozen processed foods and ready meals in Japan, opportunities exist for importers of processed meats, seafood, vegetables, pizza toppings and cheese. The growth of sales of Chinese food, including Shao-mai and fried dumplings (*gyoza*), has resulted in increased demand for processed pork. The popularity of frozen bread and dough provides many opportunities for wheat, yeast and other material importers. As the Frozen Food item with the highest production volume in Japan, croquettes offer many opportunities for importers of processed meat, mixed vegetables, potatoes and other ingredients.

Table 2. Import of Frozen Ingredients into Japan (1995-1997)

	Quantity (metric tons)			Value (million)			Tariff
	1995	**1996**	**1997**	**1995**	**1996**	**1997**	
Uncooked potatoes	4,645	6,179	6,488	389	652	775	
Pre-cooked potatoes	183,252	206,721	217,722	18,413	23,679	26,486	9.0%
Others	11,716	14,756	16,909	1,464	2,135	2,610	
Total	199,613	227,656	241,120	20,266	26,466	29,870	
Peas	21,235	20,528	20,957	2,337	2,592	2,944	
Beans	29,902	28,075	30,080	3,853	4,048	4,612	
Green soybeans	52,608	57,973	60,314	8,575	11,053	12,745	7.3- 9%
Other uncooked beans	3,764	5,826	3,774	442	1,044	713	
Prepared	4,633	3,864	2,770	367	320	269	
Total	112,142	116,266	117,895	15,574	19,057	21,283	
Sweet uncooked corn	45,688	45,583	49,245	5,544	6,226	7,284	
Sweet cooked corn	1,017	737	894	172	149	184	7.3-11.2%
Total	46,705	46,320	50,139	5,716	6,375	7,468	
Beef	284,445	308,780	315,996	95,665	103,948	105,451	50%
Pork	413,074	484,285	383,046	248,174	300,916	233,630	2.30%
Chicken	525,967	533,630	480,061	114,856	129,948	112,545	3.7-12.6%
Shrimp and Prawn	292,909	288,762	267,247	257,061	305,754	357,032	1%

Note: Tariff rate is WTO rate.

Source: Ministry of Finance Trade Statistics 1998

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